MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2018/2019

BEC1034 – MICROECONOMICS

(All sections / Groups)

1 JUNE 2019
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SEVEN (7)** pages, including the cover page, with **TWO** sections only.
   Section A – Twenty (25) Multiple Choice Questions
   Section B – Three (3) Short Structured Questions

2. Attempt **ALL** questions in both **Sections A** and **B**. The distribution of the marks for each question is given.

3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A (25 marks)

Instruction: Answer all of the questions in the multiple-choice answer sheet.

1. Which of the following statements is true about scarcity?
   A) Scarcity refers to the situation in which unlimited wants exceed limited resources.
   B) Scarcity is not a problem for the wealthy.
   C) Scarcity is only a problem when a country has too large a population.
   D) Scarcity only arises when there is an economic downturn.

2. A cafe near campus is selling a cup of cappuccino for RM5.00 and a cupcake for RM2.00. What is the opportunity cost of buying a cappuccino?
   A) 2 1/2 cupcakes
   B) 2/5 of a cupcake
   C) RM2.50
   D) RM1.00

3. In economics, the term of _____ means 'additional' or 'extra.'
   A) allocative
   B) marginal
   C) equity
   D) optimal

4. Which of the following would shift a nation's production possibility frontier outwards?
   A) Discovering a cheap way to convert sunshine into electricity.
   B) An increase in demand for the nation's products.
   C) A decrease in the unemployment rate.
   D) A law requiring workers to retire at the age of 50 instead of 55.

5. Which of the following is a factor of production that generally is fixed in the short run?
   A) Raw materials
   B) Labour
   C) A factory building
   D) Water

6. Which of the following is an implicit cost of production?
   A) Interest paid on a loan to a bank.
   B) Wages paid to labour plus the cost of carrying benefits for workers.
   C) The utility bill paid to water, electricity, and natural gas companies.
   D) Rent that could have been earned on a building owned and used by the firm.

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7. Maria's Donut House sells doughnuts. The cost of ingredients to make a doughnut is RM2.00. Maria pays her employees RM60 per day. She also incurs a fixed cost of RM120 per day. Calculate Maria's average fixed cost per day when she produces 50 doughnuts using two workers.
   A) RM2.00
   B) RM2.40
   C) RM4.40
   D) RM6.80

8. When a firm produces 50,000 units of output, its total cost equals RM6.5 million. When it increases its production to 70,000 units of output, its total cost increases to RM9.4 million. The marginal cost of an additional unit of output within this range is
   A) RM41.43.
   B) RM134.29.
   C) RM135.
   D) RM145.

9. Which of the following is **NOT** a characteristic of a perfectly competitive market structure?
   A) There is a very large number of firms that are small compared to the market.
   B) All firms sell identical products.
   C) There are no restrictions on entry by new firms.
   D) There are restrictions on the exit of firms.

10. An individual seller in perfect competition will not sell at a price lower than the market price because
   A) demand for the product will exceed supply.
   B) the seller would start a price war.
   C) the seller can sell any quantity he wants at the prevailing market price.
   D) demand is perfectly inelastic.

11. Both buyers and sellers are price takers in a perfectly competitive market because
   A) the price is determined by government intervention and dictated to buyers and sellers.
   B) each buyer and seller knows it is illegal to conspire to affect the price.
   C) both buyers and sellers in a perfectly competitive market are concerned for the welfare of others.
   D) each buyer and seller is too small relative to others to independently affect the market price.

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12. What is the relationship among the following variables for a perfectly competitive firm: the market price, average revenue and marginal revenue?
    A) Average revenue is equal to the market price; average revenue is greater than marginal revenue.
    B) The market price is equal to both average revenue and marginal revenue.
    C) Average revenue is equal to marginal revenue; average revenue is greater than the market price.
    D) As a firm lowers the market price to sell more output, marginal revenue and average revenue will be less than the market price.

13. A monopoly is characterised by all of the following **EXCEPT**
    A) there are only a few sellers each selling a unique product.
    B) entry barriers are high.
    C) there are no close substitutes to the firm's product.
    D) the firm has market power.

14. Wendell can sell five electrical motors per week at a price of RM22,000. If he lowers the price of motor to RM20,000 per week, he will sell six electrical motors. What is the marginal revenue of the sixth electrical motor?
    A) RM10,000
    B) RM12,000
    C) RM20,000
    D) RM22,000

15. Compared to a monopolistic competitor, a monopolist faces
    A) a more elastic demand curve.
    B) a more inelastic demand curve.
    C) a more elastic demand curve at higher prices and a more inelastic demand curve at lower prices.
    D) a demand curve that has a price elasticity coefficient of zero.

16. A monopolist's profit-maximising price and output correspond to the point on a graph
    A) where the average total cost is minimised.
    B) where total costs are the smallest relative to price.
    C) where marginal revenue equals marginal cost.
    D) where price is as high as possible.

17. The reason that the coffeehouse market is monopolistically competitive rather than perfectly competitive is because
    A) barriers to entry are very low.
    B) there are many firms in the market.
    C) products are differentiated.
    D) entry into the market is blocked.

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18. For a monopolistically competitive firm, marginal revenue
A) equals the price.
B) is greater than the price.
C) is less than the price.
D) and price are unrelated.

19. Why do most firms in monopolistic competition typically make zero profit in the long run?
A) Because firms produce differentiated products.
B) Because the lack of entry barriers would compete away profits.
C) Because firms do not produce at their minimum efficient scale.
D) Because the total market is not large enough to accommodate so many firms.

20. Producing a differentiated product occurs in which of the following industries?
A) Oligopoly, monopolistic competition and perfect competition
B) Monopolistic competition only
C) Oligopoly only
D) Monopolistic competition and oligopoly

21. Interdependence of firms is most common in
A) monopolistically competitive industries.
B) monopolistic industries.
C) monopolistically competitive and oligopolistic industries.
D) oligopolistic industries.

22. A decrease in the wage rate causes
A) an increase in the quantity demanded of labour.
B) a rightward shift of the firm's labour demand curve.
C) a leftward shift of the firm's labour demand curve.
D) a decrease in labour's productivity.

23. The demand for labour is described as a derived demand because
A) it is derived by workers seeking to earn income to fund the consumption of goods and services.
B) it is derived by producers seeking to make profits by starting new businesses.
C) it is derived from the demand for products that use labour in the production process.
D) it is derived from government institutions which rely on labour markets for the purpose of raising tax revenue.

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24. Firms use information on labour's marginal revenue product to determine
   A) how much to produce at each output price.
   B) how many workers to hire at each wage rate.
   C) how much marginal product to produce at each wage rate.
   D) how much labour service to supply at each wage rate.

25. If the number of employees who have been fired increases while the hiring of new employee declines, this indicates that the
   A) labour demand curve is shifting to the right.
   B) labour supply curve is shifting to the right.
   C) labour demand curve is shifting to the left.
   D) labour supply curve and the labour demand curve are both shifting to the right.

Section B (75 marks)

Instruction: Answer all of the questions in the answer booklet.

Question 1

(a) Use production possibility frontier (PPF) to describe a firm's production capacity when there is a positive technology breakthrough. (10 marks)

(b) Define "macroeconomics" and "microeconomics" with examples. (10 marks)

(c) Present "opportunity cost" with an example. (5 marks)

[Total: 25 marks]

Question 2

(a) With the aid of the demand curve, marginal revenue curve and marginal cost curve, explain the difference between a perfectly competitive firm and a monopolist in maximising the profit. (10 marks)

(b) Assume that a firm in the monopolistic competition market is currently experiencing a positive profit. Explain, with the aid of demand and supply curve, why the firm will only experience a normal profit in the long run. (10 marks)

(c) Discuss under what circumstances should a perfectly competitive firm shut down in the short run. (5 marks)

[Total: 25 marks]

Question 3

(a) Assume that the fast food restaurants are introducing self-order machine where customers can make the order at machine instead at the service counter. Predict, with the aid of the labour demand and supply curves, on what will happens on the equilibrium wage and quantity of labour for the cashiers.

(10 marks)

(b) Consider a perfectly competitive industry with the equilibrium price of RM10. A firm in the market is facing the following hiring option:

Labour	Output
0	0
5	100
10	150
15	180
20	200

(i) Compute the marginal product labour (MPL) and marginal revenue product (MRP). (6 marks)

(ii) Predict the number of labour should be hired if the wage of one labour is RM100. (4 marks)

(c) Illustrate "derived demand" with an example. (5 marks)

[Total: 25 marks]

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